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SUBJECT TO VERIFICATION.

CONFIDENTIAL.

Meeting between the Taoiseach and P.M. Thatcher
on 20th April 1990.

1. The Taoiseach met the Prime Minister in a drawing room in No. 10 Downing Street. The Prime Minister was accompanied by her principal Private Secretary, Mr. Charles Powell. The Taoiseach was accompanied by the undersigned. The meeting lasted about one and a half hours and was affable and constructive.

This note uses direct speech but does not purport to reproduce exactly what was said. After the usual preliminary remarks, the Prime Minister mentioned that the Taoiseach had been meeting President Mitterrand and Chancellor Kohl and had more recently come from his meeting with the Danish Minister.....

Taoiseach: Yes. He was upset about the Kohl/Mitterrand letter.

Prime Minister. Why wouldn't he be?

Taoiseach: Foreign Ministers will be meeting tomorrow and will probably be discussing Lithuania. Some may be supportive. We must be very careful on this.

Prime Minister: We don't want to sacrifice all the good. The consequences could be enormous. They must follow the constitutional route to secession. We must remember the territory was given to Lithuania from the Byelo-Russian Republic. There are Russian defence troops and questions involved. We must not come down firmly on one side or the other - at present. Compared with other problems, this one can be solved by discussion. We must not ruin that prospect.

Taoiseach: Yes - I agree we must not give too much encouragement - that could be dangerous.

Prime Minister: What is involved is not a negotiation between two sovereign States. At the same time, we are not saying "you

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can't secede." The Russians are being quite responsible at present. After all - they have -

- (1) given territory to the Lithuanians,
- (2) defence needs in the area.

They have given a triangle of land - a corridor from Byelo-Russia to Lithuania. They will want that back from them. We can't say one way or the other before both have continued further with their discussions.

Britain never recognised the absorption of Lithuania into the U.S.S.R. We must bear in mind the Helsinki accords. They must get involved in the Helsinki process. At the same time, Gorbachev will say "we are not talking about frontiers. There are not two sovereign States involved here.

Taoiseach: I am glad to have your views on this. I will tell Gerry Collins that he must be careful in any statement or announcement from the meeting.

Prime Minister: At the same time, if trade coercion goes on, we might have to start thinking again. We could perhaps look at the slowing down of co-operation or deferring meetings - but we would have to do this slowly and gently.

Taoiseach: Yes that would be better.

Prime Minister: All this could come up at the Summit, without warning. Without it, we will have far more than enough to do. The whole thing could become indigestible. We must look at the effect of German Union on -

- (1) the C.A.P.
- (2) trade.

I know there must be certain derogations. If we do not manage this right, Germany will undercut us in every market. Did Helmut mention the question of a timetable? Is the GDR Government in place yet? I think that what exists now has in it an extraordinary number of Communists.

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- Powell: Prime Minister they are not Communists. They call themselves Social Democrats.
- Prime Minister: At the same time they all talk about central planning and the directed economy. That is Communist.
- Taoiseach: The Chancellor is thinking of monetary union by about the 1st July. At the same time, the 2 + 4 is going on and would lead to the CSCE Summit towards the end of the year. There will be Federal elections in West Germany in December. These would be followed by all German elections in the second half of 1991.
- Prime Minister: He is changing his mind again. I thought he had 1993 in mind for unification.
- Taoiseach: There is the question of transitional period of five years. Have you seen the Delors Paper on German unification?
- Prime Minister: Not yet.
- Taoiseach: We received it only yesterday.
- Prime Minister: There is a great deal of wheat, barley, potatoes, rape seed and sugar beet produced in the GDR. They can get their yield up considerably - and very quickly. They haven't much scope for export of these products. We will need a very considerable transition period on this. We must have a report (from the Commission) on the implications.

There is also the difficulty that Germany has a different type of farming from others. Their farmers produce Mercedes and BMW's during the week and then go home at the weekend and do their farming -

Then there is the trading thing - that is an enormous problem. Once the

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Border goes there can be no monitoring of what goes on. Goods will simply flood across into West Germany and from there through the rest of the Community - we must deal with this.

Taoiseach: Do you mind if I give you the plan for the day. We propose to meet at 10.30. Baron Will give a short 10 to 15 minutes statement -

Prime Minister: That makes it a formal meeting. Do we have to have him?

Taoiseach: We would deal with the Germany question in the morning and then over lunch, look at the question of political union.

Prime Minister: Are they going to define it? I am fed up with this rhetoric. Political union means a community of Federal States. No way will I have that. Our history is much older than that.

Taoiseach: I wanted to talk to you about this. Political union can be what we want it to be. It can be as minimalist or as maximilist as we make it. That's why we would like to see you play a major role in the debate. The Danes are strongly of this view. You must use the opportunity to define and put your own imprint on the process.

Prime Minister: We already have political union. There was first of all an economic community, then we widened it to develop European political co-operation. We have enough to digest at present. If we go further, we will create even wider divisions. This debate should not be on at the moment. Your State and mine are much more developed than many of the other States of the Community. Germany has been in existence for some 40 years. Belgium is simply the Walloons and the Flemings. The Dutch were part of the Hapsburg Empire. On the other hand, Spain is a proud nation and so is France.

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The French think they can influence Germany within the Community - but Germany will be so powerful that it will dominate everyone. The Community is completely different from when DeGaulle joined. Then he was dealing with a very weak Germany. And our troops were in Germany to support him. He would not have signed the Treaties in present circumstances. They will be dealing with a powerful and dominant nation of maybe 80 to 90 million people with a new confidence - a new euphoria. This nation will highly competitive, they will make things and sell things at prices nobody can beat. This new Germany will dominate the Community. France and Germany think that they can get on within the Community but the Community is too disparate to manage together. And then they talk about the democratic deficit. There is not a single constituent of mine who knows the name of his M.E.P.!

Taoiseach: It is the same with us -

Prime Minister: In our Parliament we are accountable. I must go to Parliament tomorrow to justify what I have done today. Gonzalez goes three times a year. Mitterrand never goes. Kohl goes quite infrequently. Schluter is answerable alright and I am not sure about the position of Lubbers. With you and with me there's intimate and instant accountability. Italy was never one nation, Portugal is struggling and needs help. How can this group of people form a union?

Recently Spain received a warning from the IMF..... so will we. Unit wage costs here are up 6% over last year. We have recently lost a second Ford plant - this time to Cologne. I have got to hand it to the Germans. If they get wage increases they match them with productivity.

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Taoiseach: I would ask that you take a major interest in political union and in the question of more powers for the European Parliament. You must involve yourself in that debate. We find, during our Presidency that it is very difficult to get anything through Parliament. My personal view is if they get more powers, they will be an impediment to the Community.

Prime Minister: Delors speaks about Stage III, we will never agree to that.

Originally the Commission was a very powerful body. That was necessary in order to get the Treaty moving. But we must now look at the question of turning it into an Executive of the Council of Ministers. It is not politically accountable otherwise.

Then the principle of subsidiarity must be enshrined in Community legislation.

We must turn the Commission into a professional Civil Service - more accountable, politically.

And we must look to a better enforcement of directives. For example, Italy quite cheerfully proposes this and that and everything else - and then just as cheerfully ignores what does not suit them. Try to force this process too far and we will all become subsidiaries of Germany.

Taoiseach: That is why we think you should take a major part in this debate.

Prime Minister: There is no paper before us. What does political union mean, are they going to change the Crowned head of every country? Are they going to change the President of your country? Each country has a Parliament. Are they going to change that?

Taoiseach: It's because of these difficulties

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that I am proposing that we talk informally over lunch about political union.....

Prime Minister: I am not in a position to commit my country for 7 to 9 years ahead. I don't know what is going to happen in the U.S.S.R. I don't know how Germany will develop. These are all separate States and they all have their own considerations.

Taoiseach: With the German developments it is more important than ever that she should be embedded in the Community.

Prime Minister: But Germany is already in the Community. Most people there are tied to the Deutschmark. Further developments could tie us even more closely to her - as the dominant power in the Community. We need the protection of our sovereignty. At the same time there must be some intermediate condition. Most countries are members of the United Nations. We are members of NATO. Most of us have joined in the Helsinki Accords. We have all done this as separate states.

And then in the Community we have pooled some powers - in agriculture, in trade, in fisheries, on standards and on mergers.

Taoiseach: And also on tax harmonisation.

Prime Minister: I don't want V.A.T. on food and if I did want that I would be accountable to my own Parliament for it - not because I am being directed by a non elected commission. The structure of taxes is quite different in France, in Germany and in the other countries of the Community.

Taoiseach: I agree with you. This is a major problem. Can we turn now to the question of Eastern Europe. Is Gorbachev succeeding? Does he need help? And if he does how best should

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it be given?

Prime Minister: We can look at this in a few years - bringing in the United States. There is talk of joint ventures. But that is no use in the middle of Russia where there are no supplies, where there is no possibility of transport, where there is no management.

We have got enough on our plate in reaching 1992. We still have the most difficult directives to get through.

And then we have the Helsinki meeting and the question of arms control. The Warsaw pact has not collapsed - it just never quite existed. All this will take a long time to absorb. Then we must remember that in the U.S.S.R. the military are becoming demoralised. They are starting to exert their power again. They are being told under the C.F.E. to destroy things. They are not accepting this. They are moving their best tanks to the other side of the Urals. While we look at the Soviet army we are not looking at a unity but a large number of different ethnic groups. They have to be careful about where they send particular divisions to deal with local disturbances. Then there are the nuclear negotiations..... It is vital for the future of Europe that the United States be kept involved; and that we keep U.S. nuclear capability in Europe, but Baker does not want NATO to have only a military role. He wants to enlarge its political capability. We must enlarge political talks through NATO. That will be the forum in which the free world talks together. We can discuss defence to support the political future - in that framework.

The European Community must deal with its own agenda. There is 1992. There is the Uruguay round and there is the Community's own development.

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Then we must find a way of talking to others: that is for the C.S.C.E. - with defence being discussed mainly through NATO -

Taoiseach: That suits us. NATO could be enlarged politically and could discuss defence, with the role you mention for the C.S.C.E.

Prime Minister: The Helsinki Accords involve Eastern European and Central Europe and the U.S.S.R. - we must all talk together. Even that is difficult. In this context, some words have different meanings. They don't know what "free enterprise", the "free market" or the rule of law means. They think that means what the Government says. If you speak of setting up a company they don't know what you are talking about. They don't know what a company is.

When we had the earlier C.S.C.E. meeting life was much simpler.

Then there is EFTA.

Taoiseach: On that there appears to be two views: one that there should be a form of loose association. The Community should not take in more members. The other view is that the Community should go ahead with enlargement to involve some countries.

Prime Minister: We should have agreements with Turkey - you just can't leave her there. Similarly with Austria and we should look at Norway. The Norwegian P.M. has problems with his Coalition. Half of the Government there don't want to come into the Community.

And then EFTA must make its own decisions. For example, if we want to export cars to the United States we must accept the United States standards. We do not try to tell them what standards to adopt. The EFTA cannot be involved in our decisions.

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- Taoiseach: Austria - and Sweden - do you think they should have membership of the Community?
- Prime Minister: I don't think we should turn them down. We should see where we are in 1994.
- Taoiseach: The Dutch were of the same view. They felt we should keep in touch with them.
- Prime Minister: That will happen through the C.S.C.E. process. Above all I don't want Turkey to fall back into the Muslim world.
- Taoiseach: There is a suggestion that we should look at drugs - in Dublin: and also the environment.
- Prime Minister: That is a colossal problem. We must not give too many derogations. There is a power station in the GDR which, alone, produces more pollution than all the power stations in Sweden put together.
- Taoiseach: It is strange that the Capitalist West should always have been regarded as rapacious - when this sort of thing was going on in the East.
- We will have a short lunch: after that we will discuss Eastern Europe. Have you views on the C.S.C.E. and on GATT.
- Prime Minister: I was in the U.S. recently. The GATT negotiations are not going very well. The Americans have got hold of the idea that they should look at only agricultural exports subsidies under the GATT. They must also look at producer subsidies. They forget that our export subsidies come partly from producer levies.
- And then they have developed the idea of aggregate measure of support - under this criterion Japan is by far the biggest offender. Japan claims

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that its industry is efficient and because it is efficient can export to any market in the world: at the same time they seek to protect their farmers and charge eight times world prices for beef and rice. They are seeking to deny others the right to export to them on the basis of the efficiency of their agriculture: while at the same time, they seek to export their industrial products throughout the world, on the basis of their efficiency in industry.

There is then the question of the green pound. The Germans and the French want to get rid of it by 1992. This would affect the way in which we can reward our farmers. I don't know how you stand on this?

In the Community, Germany has dragged up agricultural prices. We could export without subsidy and this is the way we would like to proceed.

To summarise - I would like to see Eastern Europe, the C.S.C.E., the Uruguay Round and the environment included in your agenda for Dublin.

Taoiseach: The Bank may also come up.

Prime Minister: Will you support London as a location?

Taoiseach: I don't see why not. I think we could support you on that. Berlin has also been mentioned as a location.

Prime Minister: They should not have it. They are going to be powerful enough.

And then France has the O.E.C.D., the Council of Europe, Secretary General Delors, Camdessus, Lalumier et al -

Taoiseach: And the Secretary General of the O.E.C.D.

Taoiseach: There seem to be two principles. The location should be within the European Community and it should be in an

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established banking centre.

Prime Minister: And who should be in charge?

Taoiseach: There are two nominees - Attali and Ruding.

Prime Minister: We are committed to Ruding. We backed him for the IMF. He was really excellent in the job. The only trouble is that if the bank comes to London, then Attali will probably will have to get it. That is not really a good way of doing business. However, Attali is temporary. The bank would be permanent.

Taoiseach: Then Mitterrand raised also, when I was speaking with him, the question of locations for the agencies.

Prime Minister: I wouldn't touch them. You will get nowhere. Only the European Parliament wants the lot in Brussels!

You will finish up with endless trouble if you try to move things around and, in the end, nobody will be satisfied. If the Parliament have to travel - then so be it.

Taoiseach: Then you would go for the status quo! I am inclined to agree.

Prime Minister: On bilateral issues - your Supreme Court is really something! However, I understand that our officials are looking at the question of Extradition and what needs to be done.

Taoiseach: You have the best man in the world in Peter Brooke.

Prime Minister: Yes, he is very good. He is very anxious to get on with the job. I am not optimistic but we will try. He is a man of total integrity and very commanding presence.

Prime Minister: On security, we must keep at it. Some time ago I thought we were winning.

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- Taoiseach: I think we are still winning. I know that Annesley and the Commissioner meet more frequently than their predecessors and seem to have an extremely good relationship.
- Prime Minister: Really your Supreme Court is something! Murder, attempted murder, running guns, and using explosives - these are not political offences. They are criminal acts.
- Taoiseach: At the same time security co-operation is very good, getting better all the time.
- Prime Minister: Then there is this Semtex - we have not recovered all we should.
- Taoiseach: Then you think we should try to get a timetable out of the Chancellor and we must concentrate on the question of transition periods.
- Prime Minister: After the war, our industry was devastated. German industry was flattened. They reconstructed their industry, with Marshall aid, from the ground up, with the most modern technology. Their workforce is highly efficient. They will buy German - as the Japanese buy Japanese, and the French buy French. They are highly efficient and totally ruthless. You talk about the European Community. In the end there will only be three powers in the world - the U.S., Germany and Japan. The rest of us must really stand together.

There then followed from general conversation on world prospects - and the prospects for the Council in Dublin, generally.

Dermot Nally
21st April 1990.

C.C. Secretary Dorr,
Assistant Secretary Murphy, Gallagher, and Barrington -
with suitable extracts to Agriculture and Industry and
Commerce.